MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BSM3614 – STRATEGY

(All Sections/Groups)

11 MARCH 2019
9:00AM – 12:00PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions only.
2. Answer **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Answer **ALL FIVE (5)** questions.

QUESTION 1

a) Maintaining competitive success or having a sustainable business is difficult in the current competitive environment. According to John Donahue, CEO of eBay, "Almost every company has hot moments. But only great companies achieve strong, sustainable performance over time". Relate this statement on how strategic management can be a tool for business survival.

(12 marks)

b) Reliance Communication's mission statement hypothetically reads as:
Reliance Communications, LLC strives to be the world leader in the distribution of wireless products. Success will be achieved by providing our customers with dedication, superior service and solutions to satisfy their needs.

Discuss the components that are mentioned in the mission statement of Reliance Communications. In your discussion, include the components that have been omitted in its mission statement.

(8 marks)

(Total: 20 marks)

QUESTION 2

Why Your Next Deal May Be a Partnership[1]
A new study shows that alliances and joint ventures are on the rise worldwide.
by Bob Saada and Benjamin Gomes-Casseres

When Amazon, Berkshire Hathaway, and JPMorgan Chase announced a new alliance in early 2018, the partnership turned heads. Three companies, giants in their respective industries, were going to pool their resources and work together. The new venture's goal: targeting waste in the current healthcare system and improving patient service, initially for those covered by the three companies' health insurance policies, but with the potential to expand.

[...] Toyota has invested more than US$5 million in a joint venture with Microsoft that uses the tech company's cloud computing platform to expand connected car services. Starbucks and Nestlé finalised an alliance in August 2018 through which the latter will sell Starbucks packaged coffee in markets around the globe.

[...] Consider the evolution of mobile phones. As phones became smaller and personal digital assistants were developed, manufacturers and carriers formed partnerships. The arrival of smartphones brought apps and new ways to consume content, leading to other deals. Now we see alliances such as that between T-Mobile and Netflix, with the former gaining a content stream for its mobile customers, while the latter gets access to a new group of subscribers.

Elsewhere, Japanese carmakers and energy companies recently teamed up to build fuel stations for hydrogen fuel cell vehicles, following a similar effort in Germany. Other aspects of the

[1] Sourced from: https://www.strategy-business.com/article/Why-Your-Next-Deal-May-Be-a-Partnership

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automotive world, such as autonomous vehicles and ride sharing, could invite alliances with insurance companies. Meanwhile, insurance could be a factor in healthcare alliances, as mobile technology and virtual reality change traditional data collection and delivery of care.

[Look at] what happened when the Walt Disney Company ventured into computer-animated films. Pixar was an independent company when it made a deal with Disney in 1991 to produce computer-animated feature films. The first, Toy Story, was released in 1995, and Pixar held an IPO that same year. The two companies continued to work together, and although the relationship was contentious at times, Disney's strong interest — buoyed by a string of successful films — ultimately led it to acquire Pixar in 2006 for about $7.4 billion.

An alliance can be the tip of the spear when it comes to exploring a new path to growth. High valuations have tested some potential buyers' willingness to go through with certain acquisitions, fearful the deal won't deliver an adequate return on investment. But alliances and JVs have proven to be an alternative that provides access to a new market in the short term and keeps the door open for a firmer commitment down the road.

Justify the case's application of joint ventures and strategic alliances, as opposed to mergers and acquisitions, in the context of responding to the disruptions and risks in today's markets. Make a mention of cross-sector alliances in your discussion.

(Total: 20 marks)

QUESTION 3

Provided are hypothetical internal and external analyses for a Strategic Position and Action Evaluation (SPACE) Matrix of a global player in the gourmet coffee industry.

Internal Analysis		External Analysis	
Financial Position (FP)		Stability Position (SP)	
Brand value: CoffeeArt has a brand value of US$5.38 billion, up by 20% since 2015.	4	Social and environmental commitment: According to the 2017 Nielsen Global Survey on Corporate Social Responsibility, 55% of global online consumers across 60 countries say they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact.	-3
Dividend policy: Its average dividends per share growth rate has been 41.90% per year for the past 5 years.	4	Agricultural impact: Close to 800 million people around the world live in rural areas and rely on agriculture to make a living.	-2
Revenue position: Revenue from its company-operated stores account for about 70%-80% of its total net revenues.	2	Household income: Across the rapid-growth markets (RGMs), there will be nearly 200 million households with incomes in excess of US$35,000 by 2022, with spending on services such as communications, culture and recreation growing at almost twice the pace of spending on food.	-2
Debt position: It entered into a ¥5 billion four-year unsecured term loan, where repayments of ¥0.5 billion are	2	Risk involved in business: By 2030, food demand is predicted to increase by 50 percent, while energy	-3

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repayment of ¥3.5 billion due on 15 January 2019.		percent, substantially increasing both water and energy consumption, leading to increased competition for water between water-using sectors.	
Compound Annual Growth Rate (CAGR): CoffeeArt's online sales have grown at a CAGR of 17% in the past 5 years and doubled its e-commerce penetration to 14% for 2017.	4	Factor of inflation: In the International Labour Organisation's (ILO) annual "Global Employment Trends" report, an estimated 201.8 million people were jobless in 2017, up by nearly 5 million in one year, a new high, exceeding 2015's record of 198 million; additionally, in 2017, an estimated 375 million workers - 11.9 percent of the world's workforce - lived on less than $US1.25 a day, while 839 million - 26.7 percent - received $2 a day or less.	-3
Competitive Position (CP)		Industry Position (IP)	
Company size: It has 21,366 company-operated and licensed stores operating in 66 countries over Americas, Europe, Middle East, Africa and China/Asia Pacific, generally carrying all its coffee varieties.	-2	Brand stability: The potential health benefits associated with drinking coffee include: protecting against type 2 diabetes, Parkinson's disease, liver disease, liver cancer, and promoting a healthy heart.	4
Sustainable practices: It controls coffee purchasing, roasting and packaging, and the global distribution of coffee used in its operations; in addition, it operates farmer support centres in Costa Rica, Rwanda, China, Ethiopia, Tanzania, Colombia and Guatemala, staffed with agronomists and sustainability experts under the CAFÉ (Coffee and Farmer Equity) practices.	-2	Raw material concerns: Brazil's 2017 production, the smallest in 3 years, is estimated to be down 13% from last year, to only 48 million 60-kilogramme bags, with predictions for next year's coffee crop to be below 40 million 60-kilogramme bags due to the country's continuing dry weather, raising prices to a likely $3.00 per pound of beans.	4
Workforce diversity policy: It is the first Fortune 500 company in America to be independently certified as paying women and men equally; more than 70% of its workforce is female and 60% of its director-level employees and half of its vice presidents are women; in addition, it provides the P.A.C.E. (Personal Advancement & Career Enhancement) workplace education programme for its female employees.	-2	Industry growth: At $130 billion, the U.S. has the biggest coffee market in terms of retail value, followed by Brazil, Germany, Japan and France.	3
Strategic locations: Its company-operated stores are in high-traffic, high-visibility locations in or near a variety of settings, including downtown and suburban retail centres, office buildings, university campuses, and in select rural and off-highway locations (including "drive-thrus") with selected markets providing free wireless internet and the use of the CoffeeArt Card.	-2	Operational trends: Three organisations, the National Federation of Coffee Growers of Columbia, SAP Technologies and WeatherSafe, a U.K. startup, began working together in 2014 in separate mobile technology projects to develop mobile apps for farmers to obtain real information on climate trends and advice on sustainable farming practices and coffee market conditions.	6
Customer experience: It promotes the CoffeeArt Feel, built upon the criteria of customer service, community-focused store operations and customer loyalty.	-3	Competitive pressure: Global fruit juice sales should grow at about 2.7% compound annual growth rate (CAGR) in the 5 years from 2013, with a volume CAGR of 4%, with the world juices, nectars and soft drinks market presently valued at around US$149 billion in a	5

		volume CAGR of 4%, with the world juices, nectars and soft drinks market presently valued at around US$149 billion in a volume of some 76.4 billion litres, having Asia, especially China, as the main area of juice growth.	

a) Discuss the Strategic Position and Action Evaluation (SPACE) Matrix.

(5 marks)

b) Based on the above table, provide the necessary calculations and plot the SPACE graph. (*Marks will be allocated for workings.*)

(10 marks)

c) Based on your findings in (b), provide recommendations for the organisation to plan for its future growth.

(5 marks)

(Total: 20 marks)

QUESTION 4

a) **Case A: E-commerce is changing: What can fashion do to keep up?**

The business of selling fashion online is becoming more complex as social media platforms like Instagram and Facebook introduce independent shopping functions of their own. Fashion brands and retailers must create well-thought-out strategies to incorporate changes in e-commerce from the start or risk losing money, says Coen Frederiks, owner of Amsterdam-based digital agency Coqtail. He shared some advice for fashion businesses that want to break into e-commerce at Amsterdam trade fair Modefabriek.

E-Commerce is changing rapidly. The time people spend online has increased in the past years, especially on smartphones, according to Frederiks. At the same time, the numbers of channels that people visit online have also risen; from blogs to Pinterest, and Facebook to recommendation sites. Some of these channels, like Instagram are even introducing shopping tools within the app or webpage. Today, a brand or retailer possesses more channels to advertise its products, however, e-commerce has become more complex as a result. Following the rise in the number of channels, customers are using online shops less for browsing for products to buy because many have already decided what they want beforehand. "The role of a webshop is more and more conversion-based rather than inspiration-based," said Frederiks.

Nowadays, the decision for a purchase is taking place on social media, newsletters, all kind of other channels. The change in behavior means that web shops need to simplify the buying process to allow a quick checkout, he said. Before changing features, it's important to study data on how the website is being used by customers.

Currently, there is a website where visitors will go to for shopping, but e-commerce will become broader, Frederiks predicts. What will this change look like? Platforms like Instagram

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or Facebook will be connected to a retailer's e-commerce platform for consumers to shop through their social media. "Web shops as they're now will change rapidly to multiplatforms where the shopper will be redirected," he said.

There are several software systems that can serve as the central e-commerce system linked to different platforms, like Instagram. Customers can find items they are looking for on Instagram for example, but purchase it through the central e-commerce system that is linked. Frederiks' company works with the software SpreeCommerce, but there are also Magento and Shopify for instance. Among the areas the retailers to focus are knowledge, the right technologies to use, having a good payment service provider and a good content with product images and campaign photography to get brand awareness out into the online channels.

"If you do it, you have to do it right. Otherwise you can lose so much money on setting up e-commerce and don't sell anything online", said Frederiks. "So you need to invest in good e-commerce, content, fulfillment and support. It's really important to make the business case upfront."

For retailers and brands which are just starting to sell online and don't want to invest a lot in an e-commerce system upfront, Frederiks recommends selling through a platform like Shopify. The e-commerce platform provider, Shopify offers a webshop for brands, costing only a couple hundred dollars per year, and allows companies to focus on creating good content and marketing before investing heavily into their e-commerce platform.

Source: https://fashionunited.com/news/retail/e-commerce-is-changing-what-fashion-can-do-to-keep-up/2018073022599

Based on the information in the case above, if you are a fashion retailer, specify the possible actions your marketing department should focus on?

(12 marks)

b) **Case B: Citigroup board names new chairman, keeps post separate from CEO**

[NEW YORK] The board of Citigroup Inc on Monday named one its independent members to be its new chairman, keeping the post separate from current Chief Executive Officer Mike Corbat.

John Dugan, 63, a former bank regulator and former lawyer to the Citigroup board who became a Citigroup director last year, will succeed Mike O'Neill on Jan 1, the company said. Mr. O'Neill recently reached the board's retirement age of 72 and was due to leave in April. As chairman, Mr O'Neill led directors to name Mr. Corbat as CEO in October 2012 when the board dismissed Vikram Pandit from the job.

The CEOs of Citigroup big bank rivals JPMorgan Chase & Co and Bank of America Corp also serve as chairman of their boards. But the dual assignments have been challenged by shareholders who believe board chairman should be independent of the company executives they are assigned to oversee. The change in the leadership of the Citigroup board comes as the bank, the third-biggest US bank by assets, struggles to catch up with the financial performance

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of its peers after it suffered massive losses in the 2007-2008 financial crisis, took government bailouts and had to sell assets.

Mr. Corbat is pushing the bank to reach 2020 financial targets he laid out last year after missing targets he set in 2013. In the statement from Citigroup, Mr. Dugan said, "I am confident in Mike Corbat and his team's ability to continue to improve returns for its shareholders." Mr. Corbat said, "Citi and our shareholders have been well served by having an independent chairman."

Mr. Dugan began advising the Citigroup board in 2015 while he was a Washington lawyer at Covington & Burling, where he headed the law firm's financial institutions group. Mr. O'Neill's decision to leave a few months early will allow Mr. Dugan to lead the board as it makes decisions on executive pay for 2018 and sets views on shareholder issues ahead of the Citigroup annual meeting in April.

Source:https://www.businesstimes.com.sg/banking-finance/citigroup-board-names-new-chairman-keeps-post-separate-from-ceo

Separation between the CEO and chairman is an essential governance mechanism. Justify the statement.

(8 marks)

(Total: 20 marks)

QUESTION 5

a) **The Honest Company® Accelerates Growth Strategy with Significant Investment from *L* Catterton**

LOS ANGELES & GREENWICH, Conn.--(BUSINESS WIRE)--The Honest Company® today announced a $200 million strategic minority investment from *L* Catterton, the largest and most global consumer-focused private equity firm in the world. The investment will accelerate The Honest Company's innovation initiatives as well as provide access to operational capabilities that will bolster its supply chain and global reach.

Founded in 2012, The Honest Company® is a mission-driven consumer products company dedicated to empowering people to live happy, healthy lives. Consumers seeking thoughtfully formulated, safe and effective baby, personal care and beauty products, along with education and support can find The Honest Company products across North America via honest.com and honestbeauty.com and at more than 17,000 retail locations. A leader in the natural baby category and a trailblazer in clean beauty, The Honest Company is committed to ensuring all families have access to basic necessities and the latest health information for safe growth and development.

With over $15 billion of equity capital across six fund strategies in 17 offices globally, *L* Catterton is the largest and most global consumer-focused private equity firm in the world. *L* Catterton's team of more than 160 investment and operating professionals partners with management teams around the world to implement strategic plans to foster growth, leveraging deep category insight, operational excellence, and a broad thought partnership network. Since

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1989, the firm has made over 200 investments in leading consumer brands. "*L* Catterton is the right partner for The Honest Company based on its expertise and extensive resources which will fuel our evolution into an iconic global brand," said Nick Vlahos, The Honest Company CEO".

The Honest Company continues to be a disruptive force in e-commerce, retail and direct-to-consumer markets. This investment will further promote global scale by opening new distribution channels and unlocking expanded market opportunities. The Honest Company just announced an exclusive retail distribution partnership with Douglas, the #1 beauty retailer in Europe with more than 2,500 stores. This partnership will bring the full Honest Beauty line to seven European countries starting in spring 2019. "The Honest Company has tremendous brand equity, innovative and quality products, and a loyal customer following," said Scott Dahnke, Global Co-CEO of *L* Catterton. "The Honest Company has evolved into a lifestyle brand and has many channels to grow in natural baby, personal care, beauty and adjacent categories in the future.

Source:https://www.businesswire.com/news/home/20180606005988/en/Honest- Company %C2%AE - Accelerates-Growth-Strategy-Significant-Investment

i) Based on the case study, discuss the any **THREE (3)** competencies of Honest Company that attracted the investment from L Catterton.

(6 marks)

ii) Honest Company has collaboration with a number of companies, the latest being L Chatterton. Identify and explain the competitive advantages that Honest Company will be able to gain with the investment from L Chatterton.

(4 marks)

b) In many organisations, strategy evaluation is simply an appraisal of how well an organisation has performed. Some firms argue that their strategy must have been correct if the appraisal is affirmative. The strategy may be correct but strategy evaluation has both long-run and short-run focus i.e. strategies often do not affect short-term operating results until it is too late to make the needed changes.

Discuss Rumelt's strategy evaluation criteria – *consistency, consonance, feasibility and advantage* – to support the above view.

(10 marks)

(Total: 20 marks)

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